Annual Report 2002-2003

Agri-Food Innovation Fund

AGRI-FOOD INNOVATION FUND

Canada Saskatchewan

103-06640/

Annual Report 2002-2003

Agri-Food Innovation Fund

For the fiscal year ending
March 31, 2003

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Letters of Transmittal

Honourable Lyle Vanclief
Minister of Agriculture and Agri-Food Canada
Sir John Carling Building
930 Carling Avenue
Ottawa, Ontario

Honourable Clay Serby
Minister of Saskatchewan Agriculture, Food and
Rural Revitalization
Room 307,
Legislative Building
Regina, Saskatchewan
S4S 0B3

Dear Sirs:

We are pleased to present herewith the Annual Report of the Canada-Saskatchewan Agri-Food Innovation Fund for the 12 months ending March 31, 2003.

Respectfully submitted:

Bob Wettlaufer,
Federal Co-Chair,
Board of Directors,
Agri-Food Innovation Fund

Maryellen Carlson,
Provincial Co-Chair,
Board of Directors,
Agri-Food Innovation Fund.

Her Honour the Honourable Dr. Lynda M. Haverstock
Lieutenant Governor
Province of Saskatchewan
Government House
Regina, Saskatchewan

July 18, 2003

Your Honour:

I have the honour to submit herewith the Annual Report of the Agri-Food Innovation Fund for the 12 months ending March 31, 2003.

I have the honor to be, Madam, your obedient servant.

Clay Serby

Clay Serby,
Minister
Saskatchewan Agriculture Food
And Rural Retivalization

Message From The Minister of Agriculture and Agri-Food Canada

To make a meaningful and lasting impact on Saskatchewan's agriculture and agri-food sector: this was the goal of the Canada-Saskatchewan Agri-Food Innovation Fund (AFIF) when it was launched in 1995.

Now, as the program draws to a close, it is clear that AFIF has made its mark. Through projects large and small — some 300 in all — AFIF has supported the efforts of researchers, producers and entrepreneurs to pursue new and emerging primary production, sustainable agriculture and value-added opportunities.

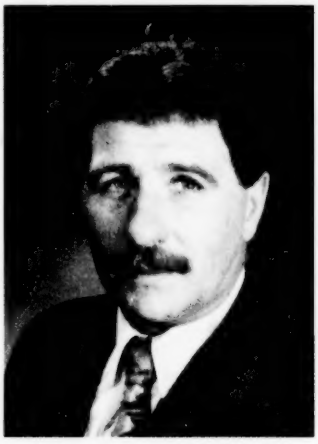
This Fund has done more than simply respond to change. By strategically investing in the developing primary and value-added agri-food sectors, AFIF has actively facilitated the transition to a more market-driven Saskatchewan economy.

AFIF's legacy will be with us for years to come. Through the Agricultural Policy Framework, we will build on that legacy to secure a highly competitive agriculture and agri-food sector that is well-positioned to compete for global markets, while preserving its position as a world leader in food safety and quality, innovation and environmentally responsible production.

I would like to extend my congratulations to everyone who has had a hand in AFIF's success. I look forward to working with you as we continue to build on those achievements in the years ahead.

Lyle Vanclief
Minister of Agriculture and Agri-Food Canada

Message from the Minister of Saskatchewan Agriculture, Food and Rural Revitalization



This year marks the conclusion of the Agri-Food Innovation Fund (AFIF), a program which has provided a multitude of valuable projects and research results for Saskatchewan's agriculture and food industry since 1995.

With 300 projects in eight key research sectors, AFIF has created a lasting legacy for agriculture in Saskatchewan and Canada.

The program demonstrated that extraordinary achievements can, indeed, be accomplished through cooperation and enthusiasm. AFIF was more than a program — it was an important collaboration of producers, industry, academics and governments, all working together to set and meet the goals.

AFIF has also proved to be an example of how the provincial and federal government can work together in harmony to obtain the maximum benefit for taxpayers.

Saskatchewan's agriculture and food industry will benefit from AFIF's results and successes for years to come.

Clay Serby

Clay Serby
Deputy Premier
Minister of Agriculture, Food
and Rural Revitalization

Board of Directors

Bob Wettlaufer, Co-Chair (Federal)
Senior Advisor, Resource Management
Prairie Farm Rehabilitation Administration (PFRA), Regina
Agriculture and Agri-Food Canada (AAFC)

Ms. Maryellen Carlson, Co-Chair (Provincial)
Assistant Deputy Minister,
Saskatchewan Agriculture Food and Rural Retivalization, Regina

Ms. Joan Chase	Meota
Dr. Louise Greenberg	Regina
Mr. Louis Hradecki	Meath Park
Ms. Janet Ledingham	Weyburn
Dr. George Lee	Saskatoon
Mr. Doug Maley	Saskatoon
Ms. Linda Pipke	Saskatoon
Dr. Gordon Rowland	Saskatoon
Mr. Don Russell	Rosetown
Mr. Don Tait	Elrose

Agri-Food Innovation Fund Secretariat

Ms. Elin Viberg,
Co-Secretary to the Board of Directors (Federal) and Program Leader (Federal)
Prairie Farm Rehabilitation Administration (PFRA), Regina
Agriculture and Agri-Food Canada (AAFC)

Mr. John Babcock,
Co-Secretary to the Board of Directors (Provincial) and Program Leader (Provincial)
Saskatchewan Agriculture, Food and Rural Revitalization, Regina

Staff management services are provided through the Agriculture Research Branch of Saskatchewan Agriculture, Food and Rural Revitalization.

AFIF Helped Agriculture Diversify

The agricultural sector of Saskatchewan's economy has become stronger and more diversified as a result of work supported by the $91-million Canada-Saskatchewan Agri-Food Innovation Fund (AFIF).

The 300 research, development and infrastructure projects supported by AFIF will leave a lasting legacy and help Saskatchewan's agricultural economy continue to grow for years to come.

Established in 1995, AFIF received two-thirds of its funding from the federal government and one-third from the province.

Producers, researchers and government officials worked together to establish the goals and objectives for AFIF to target eight key sectors of the agricultural economy:

- Biotechnology,
- Food processing,
- Horticulture,
- Information technology,
- Non-food processing,
- Specialty crops,
- Specialized livestock
- Sustainable agriculture

The Saskatchewan Food Industry Development Centre, the largest single project AFIF supported, became fully operational two years ago. A new commercial kitchen, laboratory and federally inspected pilot processing plant are at the heart of the Food Centre in Saskatoon that received almost $11.5 million from AFIF.

AFIF support recognized the fact that food processing is the fastest growing sector of Saskatchewan agriculture. Saskatchewan food processing companies employ more than 7,000 people and have an annual payroll of $227 million.

Food Centre provides production and marketing advice to Saskatchewan food processors and is the focal point for co-ordination and delivery of existing and new technical, business, educational and human resource services for the industry.

Food Centre can help in the development of export-ready meat, fruit and vegetable products.

Some AFIF-supported projects produced an immediate impact on the economy, while benefits will continue to accrue for years to come from other initiatives AFIF helped.

For example, AFIF provided a total of $19.6 million in endowments to the University of Saskatchewan, which will continue to help develop research initiatives in areas such as biotechnology and food research for many years to come.

Infrastructure paid for by AFIF will help the food sector (Food Centre in Saskatoon), specialized livestock (Stockman's Arena in Regina), non-food processing (Crop Development Centre in Humboldt) and horticulture (vegetable facilities in Outlook). AFIF also helped provide new equipment, tools and techniques for a wide array of research and development projects in the province's booming agriculture biotechnology sector.

AFIF helped establish new agricultural organizations such as the Saskatchewan Nutraceutical Network, promoted Saskatchewan-grown products through SaskBounty and the Saskatchewan Native Fruit Growers' Association.

In addition, AFIF collaborated on research with groups as diverse as pulse growers and bison producers and financed the testing of specialty crops at seven different locations across the province.

The federal-provincial agreement under which AFIF operated ended on March 31, 2003. However, the legacy of the projects AFIF supported will be an agriculture and agri-food industry that is well positioned to challenge for global markets and be recognized as the world leader in food safety, innovation and environmentally responsible production.

Board of Directors Report

To Members of the Legislative Assembly of Saskatchewan

The Board of Directors of the Agri-Food Innovation Fund of Saskatchewan is responsible for the integrity of the accompanying financial statements and all other information in this 2002-2003 Annual Report. It is the responsibility of management to prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP) in Canada.

The integrity of the financial records from which these financial statements are prepared is largely dependent on the systems of internal accounting controls. The purpose of such systems is to provide reasonable assurance that transactions are appropriately recorded in order to permit preparation of financial statements; and, assets are properly accounted for and safeguarded against loss from unauthorized use. Underlying this concept of reasonable assurance is the fact that limitations exist in any system of internal controls based on the premise that the cost of such controls should not exceed the benefits derived therefrom.

The financial statements have been audited by the Provincial Auditor of Saskatchewan. The report to the Members of the Legislative Assembly, stating the scope of the examination and opinions on the financial statements appears on the following pages.

Bob Wettlaufer,
Federal Co-Chair,
Board of Directors,
Agri-Food Innovation Fund

Maryellen Carlson,
Provincial Co-Chair,
Board of Directors,
Agri-Food Innovation Fund

June 10, 2003

Auditor's Report

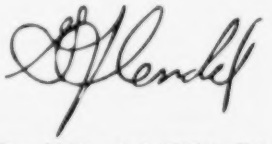
To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Agri-Food Innovation Fund as at March 31, 2003 and the statements of revenue, expenditure and net financial assets and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Fund received transfers from the General Revenue Fund under a shared-cost agreement with the federal government. The Fund recorded these transfers as revenue in the year they were received. However, transfers under shared-cost agreements should be recorded as revenue when the related eligible expenditures are incurred. Any transfers received in advance should be recorded as deferred revenue. Had the Fund properly recorded these transfers, revenue from the Government of Saskatchewan would have increased by $5,493,146 (2002 - $2,886,854) and the deficit for the year would have decreased by $5,493,146 (2002 - $2,886,854). Also, deferred revenue as at March 31, 2002 would have increased by $5,493,146 and net financial assets as at March 31, 2002 would have decreased by $5,493,146.

In my opinion, except for the effects of the failure to properly record the transfers as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Regina, Saskatchewan
June 10, 2003

Fred Wendel, CMA, CA
Provincial Auditor

Agri-Food Innovation Fund
Statement of Financial Position

Statement 1

As at March 31

	2003	2002
Financial Assets		
Due from General Revenue Fund (Notes 3 and 4)	$ 5,117,170	$ 10,182,767
Interest receivable (Notes 3 and 4)	37,023	51,244
Accounts receivable	46,669	99,760
Prepaid expenditure	886,953	2,171,731
	6,087,815	12,505,502
Liabilities		
Accounts payable	351,752	1,260,596
Net Financial Assets (Statement 2)	$ 5,736,063	$ 11,244,906

(See accompanying notes to the financial statements)

Agri-Food Innovation Fund
Statement Of Revenue, Expenditure and Net Financial Assets

Statement 2

Year Ended March 31

	2003	2002
Revenue		
Government of Canada (Note 6)	$ 118	$ 2,858,990
Interest revenue (Notes 3 and 4)	172,165	420,218
Miscellaneous	17,865	27,781
Total revenue	190,148	3,306,989
Expenditure		
Contractual services - Strategic Projects	5,566,508	5,463,740
Board expenditures	8,426	14,484
Office supplies	30	1,637
Communication activities	124,027	265,983
Total expenditure	5,698,991	5,745,844
Deficit for the year	(5,508,843)	(2,438,855)
Net financial assets, beginning of year	11,244,906	13,683,761
Net financial assets, end of year - to Statement 1	$ 5,736,063	$ 11,244,906

(See accompanying notes to the financial statements)

Agri-Food Innovation Fund
Statement of Cash Flows

Statement 3

Year Ended March 31

	2003	2002
Cash Flows from operating activities:		
Receipts from the Government of Canada	**$ 99,760**	$ 89,788
Refunds from contractors	**17,865**	41,929
Interest received	**186,504**	565,247
Paid to contractors and suppliers	**(5,369,726)**	(4,644,445)
Cash Flows from operating activities	**(5,065,597)**	(3,947,481)
Cash Flows from financing activities:		
Receipts from the General Revenue Fund	**—**	150,000
Net decrease in cash and cash equivalents	**(5,065,597)**	(3,797,481)
Cash and cash equivalents, beginning of year (Note 2 (c))	**10,182,767**	13,980,248
Cash and cash equivalents, end of year (Note 2 (c))	**$ 5,117,170**	$ 10,182,767

(See accompanying notes to the financial statements)

Agri-Food Innovation Fund
Notes to the Financial Statements
March 31, 2003

1. Authority and Definition

The Agri-Food Innovation Fund was established effective March 31, 1995 pursuant to Section 3 of *The Agri-Food Innovation Act* as a corporation. The purpose of the Fund is to enhance the diversification of the Saskatchewan agriculture and food industry, support research and development and encourage farmers and rural residents to create economic opportunities and jobs. On September 25, 1995, the Government of Saskatchewan entered into the Canada-Saskatchewan Agri-Food Innovation Agreement (Agreement) with the Government of Canada to achieve this purpose.

The Fund is administered by the Agri-Food Innovation Fund Board.

The Board has entered into contracts with various contractors to carry out projects for the purpose outlined above.

2. Significant Accounting Policies

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following accounting principles are considered significant:

a) Revenue Recognition

Externally restricted contributions are recognized as revenue in the year in which the related expenditures are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Funding received from the Federal Government is considered to be externally restricted and as a result is deferred until the program itself incurs expenditures.

Funding received from the Government of Saskatchewan is not considered to be externally restricted because the Fund is controlled by the Government.

b) Receivables/Payables

These financial instruments are both interest and non-interest bearing and are due or payable within the next year. Due to this short-term maturity, the carrying value of these financial instruments approximates fair value.

c) Cash and Cash Equivalents

Cash and cash equivalents are comprised of amounts due from the General Revenue Fund.

3. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since they are all controlled by the Government. These financial statements include transactions with other Government agencies.

The Fund earned interest income of $172,165 (2002 - $420,218) on monies deposited in the General Revenue Fund. At year end, the Fund had monies deposited in the General Revenue Fund totalling $5,117,170 (2002 - $10,182,767).

In accordance with Section 9 of *The Agri-Food Innovation Act*, the Minister of Agriculture, Food and Rural Revitalization may provide to the Fund any supplies and employee services required to carry out its responsibilities. The Fund received office space and administrative services from Saskatchewan Agriculture, Food and Rural Revitalization without charge.

Included in prepaid expenditures are amounts paid to related parties of $14,917 (2002 - $722,431) and included in accounts payable are amounts due to related parties of $78,548 (2002 - $96,653).

During the year, the Fund made expenditures totalling $1,023,208 (2002 - $1,340,117) to related parties.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

4. Due From General Revenue Fund

The monies of the Agri-Food Innovation Fund are deposited in the General Revenue Fund. The Agri-Food Innovation Fund's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty-day borrowing rate and the Agri-Food Innovation Fund's daily balance. The average thirty-day borrowing rate for the year was 2.62% (2002 – 3.41%).

5. Comparison of Planned and Actual Results for the Year Ended March 31, 2003

	Budget	Actual
Expenditures		
Board expenditures	$ 10,000	$ 8,426
Office supplies	4,000	30
Contractual services - Strategic Projects	7,315,964	5,566,508
Communication activities	43,000	124,027
	$7,372,964	$ 5,698,991

The Board approved the budget for expenditures at its February 14, 2002 meeting.

6. Federal Government Funding

Canada did not contribute anything in the year (2002 - $2,277,335) under Section 5.3 of the Agreement, as Canada had completed its commitment to AFIF in 2002. Under the Agreement, interest accrues on Canada's contributions until they are spent. Interest on Canada's contributions in the year were $118 (2002 - $3,686).

Up until 2003, the Agri-Food Innovation Fund Board approved designated federal agencies to carry out a project or program, and the funding was provided directly to the agency by Canada. As Canada completed its commitment to AFIF in the 2002 fiscal year, for 2003 there were no federal agencies designated to carry our projects and Canada did not provide any direct funding.

In 2002 and prior years, the project or program revenues and expenditures were recorded in the Fund. Included in revenue and expenditure on Statement of Revenue, Expenditure and Net Financial Assets for 2002 is $2,173,889 for projects funded directly by Canada.

7. Commitments

At March 31, 2003, the Board had approved Strategic Projects that will be expended in future years.

March 31, 2004	$ 4,882,033
March 31, 2005	213,000
March 31, 2006	34,000
	$ 5,129,033

Agri-Food Innovation Fund
Details of Expenditures (Unaudited)

Schedule1

For the Year Ended March 31		2003
Board Expenditures:		
Travel and meetings		
Payees under $2,500	$	7,580
Net accrual adjustments		846
Total Travel and Personal Services		8,426
Strategic Projects		
Agricultural Biotechnology Initiative		30,000
Agriculture Institute of Management in Saskatchewan		55,000
Dairy Farmers of Saskatchewan		30,000
East Central Research Foundation		47,000
Garven & Associates		107,125
Harvest Green Botanicals		88,050
Indian Head Agriculture Research Foundation		34,800
Marmax Consultants		552,000
MCN.Canola Products Inc.		21,000
Northeast Agriculture Research Foundation		33,200
Plant Biotechnology Institute		699,632
Prairie Agricultural Machinery Institute		24,569
Prairie Feed Resource Centre		50,000
Saskatchewan Bison Association		267,257
Saskatchewan Food Processors Association		75,000
Saskatchewan Fruit Growers Association		35,000
Saskatchewan Nutraceutical Network		245,000
SaskPork		245,300
Saskatchewan Quality Starts Here		201,500
South East Prairie Rural Development Corporation		37,000
Sullivan, Andrew		121,081
Sweetman, Glen		61,085
University of Saskatchewan		266,314
Wheatland Conservation Area Inc.		50,500
Payees under $20,000		1,793,949
Net accrual adjustments		395,146
Total Strategic Projects		5,566,508
Supplier Payments		
Printwest Communications Ltd.		43,250
Trinity Communications Inc.		30,651
Payees under $20,000		70,245
Net accrual adjustments		(20,089)
Total Supplier Payments		124,057
Total	$	5,698,991